

**ONSTED COMMUNITY SCHOOLS
ONSTED, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

**WITH
INDEPENDENT AUDITORS' REPORT**

CONTENTS

	<u>PAGE</u>
Management's Discussion and Analysis	1 – 8
Independent Auditors' Report	1 – 2
Basic Financial Statements:	
Government-wide Financial Statements	
Statements of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet – Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Fiduciary Funds	
Statements of Fiduciary Net Assets	9
Notes to Financial Statements	10 – 24
Required Supplementary Information	
Independent Auditors' Report on Required Supplementary Information	25
Budgetary Comparison Schedule – General Fund	26
Budgetary Comparison Schedule – Capital Projects Fund	27
Other Additional Information:	
Independent Auditors' Report on Additional Information	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29 – 31

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Onsted Community School District (the District), a K-12 school district located in Lenawee County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the District administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

This review must contain information about the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues by program for the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund.

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

- The government-wide statements, the **Statement of Net Assets** and the **Statement of Activities**, provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund levels statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Resources are considered currently available if received within 60 days of the fiscal year end. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue, Debt Service and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

The graph below depicts how the stability and health of the General Fund revenues are dependent upon the ability of the state to fund the District's budgeted per-pupil foundation allowance of \$7204 per student:



The graph below depicts the sources of revenue for all governmental funds of the District (including restricted), and, again, how much the District relies upon the health of the State's economy and ability to fund the budgeted per-pupil foundation allowance:



Government-wide Financial Statements

The government-wide (district wide) financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

The two district wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the District's overall health, consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district wide financial statements, the District has one category of activity:

Governmental activities are regular and special education, transportation, and administration as shown in greater detail in the financial statements. Property taxes and state formula aid provide the most funding for these activities.

Summary of Net Assets

**Onsted Community Schools
Statement of Net Assets
June 30, 2008**

<u>ASSETS</u>	Governmental Activities	
	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	\$1,242,190	\$1,163,183
Investments	1,730,621	2,640,354
Accounts Receivable	43,586	52,191
Taxes Receivable	9,274	760
Due from other governmental units	2,092,274	2,013,425
Inventory/interest receivable/prepaid expenses	22,641	21,035
Total current assets	<u>5,140,586</u>	<u>5,890,948</u>
NONCURRENT ASSETS:		
Capital assets	23,739,440	23,260,927
Less: Accumulated depreciation	(8,312,753)	(7,757,908)
Capital assets-net of accumulated depreciation	<u>15,426,687</u>	<u>15,503,019</u>
Accrued interest receivable on defeased bonds	477,111	508,918
Prepaid bond costs	93,936	100,646
Total non-current assets	<u>15,997,734</u>	<u>16,112,583</u>
Total assets	<u>\$21,138,320</u>	<u>\$22,003,531</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	176,225	199,342
Accrued salaries and related items	1,056,991	1,011,159
Loan payable	0	950,000
Interest payable	62,269	95,837
Bank overdraft	0	0
Unearned revenue	54,713	108,298
Current portion of long term obligations	510,697	480,000
Current portion of compensated absences	60,823	46,949
Total current liabilities	<u>1,921,718</u>	<u>2,891,585</u>
NONCURRENT LIABILITIES:		
Noneurrent portion of long term obligations	8,669,753	9,180,450
Add: Unearned premium on bonds net of accumulated amortization	76,220	82,083
Compensated absences	140,141	140,788
Total non current liabilities	<u>8,886,114</u>	<u>9,403,321</u>
Total liabilities	<u>10,807,832</u>	<u>12,294,906</u>
NET ASSETS:		
Invested in capital assets net of related debt	6,170,017	5,760,486
Restricted for Debt Service	261,549	328,503
Restricted for Capital Projects	814,870	655,573
Unrestricted	3,084,052	2,964,063
Total net assets	<u>10,330,488</u>	<u>9,708,625</u>
Total Liabilities & Net Assets	<u>\$21,138,320</u>	<u>\$22,003,531</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2008, the District's net assets increased by \$621,863. This compares to a \$652,472 increase in net assets during the fiscal year ended June 30, 2007. Significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2008, \$554,845 was recorded for depreciation expense. This compares to \$528,569 for the year ended June 30, 2007.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2008, \$478,513 of expenditures were capitalized and recorded as assets of the District. This compares to capitalized expenditures of \$109,683 for the fiscal year ended June 30, 2007. These additions to the District's capital assets will be depreciated over their useful life. The major portion of these capital expenditures was the cost to resurface and expand the track, as well as replacing lighting at the track.

The net effect of the new capital assets, the disposal of unusable capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$76,332 for the fiscal year ended June 30, 2008.

Results of Operations

For the fiscal year ended June 30, 2008, the results of operations, on a District-wide basis, were:

	2008	2007
General revenues		
Property taxes	\$ 2,709,472	\$ 2,673,087
Earnings on investments	54,784	89,783
State sources	11,185,214	11,461,655
Other	628,785	333,696
	<hr/>	<hr/>
Total general revenues	\$14,578,255	\$14,558,221
Program revenues		
Charges for services	609,053	620,037
Operating grants	638,176	832,080
	<hr/>	<hr/>
Total program revenues	\$ 1,247,229	\$ 1,452,117
Total revenues	\$15,825,484	\$16,010,338
Expenses		
Instruction	\$ 8,592,487	\$ 8,802,416
Support services	4,427,739	4,366,472
Community services	61,110	82,658
Food services	641,160	653,127
Athletics	534,651	511,853
Interest expense	0	0
Interest on long term debt including amortization of discount	391,629	412,771
Unallocated depreciation	554,845	528,569
	<hr/>	<hr/>
Total expenses	\$15,203,621	\$15,357,866
Change in net assets	621,863	652,472

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. In May 2007 an election was passed for 18 mills so no Headlee rollback was in effect for the fiscal year ending June 30, 2008. Property tax revenues for the 2007-08 fiscal year were \$1,925,175 for general purposes.

2. State sources

The State of Michigan provides a \$7,204 per pupil foundation allowance that provides a substantial portion of the District's revenue. In addition, the District received various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year, there was an adjustment made that includes two months of state aid payments that was not received in the fiscal year in which the related expenses occurred.

3. Student Enrollment

The District's blended count, which is used to compute the State Aid allowance, consists of 75% of the fall student count and 25% of the previous spring's student count. For the 2007-08 school year, the District blended count was 1806.59. This included a loss of 85 students in the fall count.

4. Salaries and benefits

A significant portion of the District's expenses are related to compensation of employees. Due to contracts in place with teachers, support staff and administration, those costs increased for step changes and percentage increases in salary. Health insurance costs increased for teachers, administrators and for support staff, even though some of that cost was offset by insurance caps built into the contracts. Retirement costs decreased from 17.74% of payroll to 16.72% of payroll. FICA costs and worker compensation costs remained stable.

5. Instructional purchases

Instructional purchases including textbooks and supplemental learning materials, supplies, and purchased services comprise a substantial part of each year's budgetary expenditures.

6. Operations and maintenance

Operation and maintenance of our school buildings and vehicles also require a substantial portion of the District's budget.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. These budget amendments fall into two categories:

- Changes made in December 2007 and June 2008 to reflect increased revenues and expenses.
- Increases in appropriations to prevent budget overruns.

Although the District's final budget for the general fund anticipated that there would be an increase to fund balance of \$25,000, the actual results of the year show an increase of \$125,990.

Analysis of differences between original and final budgeted amounts and between actual and budgeted amounts

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the fourth Wednesday in September), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The final amendment is made just before year-end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report. The following analysis describes the reasons for changes in the budget during the year.

Revenues: Original estimated budgets for revenues were \$13,855,325 versus the final budget of \$13,984,128. Major components of revenue and their original versus final projections are discussed below.

- Property tax revenues increased due to property value changes.
- State Aid was decreased due to a lower student count than predicted.

- Federal revenues were increased due to revised grant amounts for Title I, Vocational Education, etc.
- Intermediate revenues were increased due to Special Education revenue being higher than anticipated.

Expenses: The original budget for expenditures was \$13,830,325 versus the final budget figure of \$13,980,758. The main reason for the increase in expenditures was the salary and benefit costs increased due to contract negotiations completed after the original budget was set, matching grants expenditures to revenues, and increased costs for unemployment benefits.

Final budget versus actual figures

Even though the final budget is adopted at the end of June, final revenue and expense amounts are not complete until the audit is completed in August. Accounts payable and receivable must be recorded at that time and may be different from the amounts projected in June.

Capital Asset and Debt Administration

Capital Assets -

At June 30, 2008, the District had \$23,584,668 invested in a broad range of capital assets, including land, buildings, vehicles and equipment. Additions of \$478,513 resulted from upgrading track facilities, the purchase of a mower and a school bus. Decreases resulted from the depreciation of capital assets. More detail is presented in the notes to the financial statements.

Long-Term Debt -

At June 30, 2008, the District's long-term debt obligations included \$60,450 in Durant bonds, \$9,120,000 in bonds payable, and \$200,964 in accumulated vested benefits including sick pay leave. More detail is presented in the notes to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Retirement costs are expected to decrease in October 2008 from 16.72% to 16.54% of salaries.
- In 2004, the District implemented the No Child Left Behind Act enacted by the federal government in 2003. Several requirements of this act could significantly increase District costs in 2008 and beyond.

- The State of Michigan has adopted a budget for 2008-09. The District's budget was adopted with an estimated increase of \$100 per student from the current \$7,204 foundation grant based on information known at the time, and an estimated blended student count of 1,742. These numbers may change based on the actual student count, although there could still be an executive order cut later in the year if revenues do not come in as anticipated.
- Because the District has chosen to become a School of Choice district, enrollment may increase as students from neighboring districts take advantage of the choice opportunity. Schools of Choice was created in Section 105 of the State Aid Act and allows pupils who are not residents of Onsted School District but are residents of the Lenawee Intermediate School District the option to apply for enrollment. In the 2005-2006 school year, the Board of Education expanded the choice opportunity to contiguous counties under Section 105(c). There is a possibility that this will generate funds.

Contacting the District's Financial Management

This financial report is designed to provide the district citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Onsted Board of Education Office, Onsted Community School District, 10109 Slee Road, Onsted, Michigan 49265, or call (517) 467 - 2174.

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Onsted Community Schools
Onsted, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Onsted Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Onsted Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2008 on our consideration of the Onsted Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Education
Onsted Community Schools
Onsted, Michigan

The management's discussion and analysis and budgetary comparison information on pages *i* through *x* and pages 26 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 22, 2008

ONSTED COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2008 and 2007

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and cash equivalents	\$ 1,242,190	\$ 1,163,183
Investments	1,730,621	2,640,354
Accounts receivable	43,586	52,191
Taxes receivable	9,274	760
Due from other governmental units	2,092,274	2,013,425
Interest receivable		1,069
Inventory	13,986	14,695
Prepaid expenses	8,655	5,271
NONCURRENT ASSETS:		
Capital assets	23,739,440	23,260,927
Less: Accumulated depreciation	(8,312,753)	(7,757,908)
Accrued interest receivable on defeased bonds	477,111	508,918
Prepaid bond costs	<u>93,936</u>	<u>100,646</u>
TOTAL ASSETS	<u>\$ 21,138,320</u>	<u>\$ 22,003,531</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 176,225	\$ 199,342
Accrued salaries and related items	1,056,991	1,011,159
Loan payable		950,000
Interest payable	62,269	95,837
Unearned revenue	54,713	108,298
Current portion of long term obligations	510,697	480,000
Current portion of compensated absences	60,823	46,949
NONCURRENT LIABILITIES:		
Noncurrent portion of long term obligations	8,669,753	9,180,450
Add: Unearned premium on bonds, net of accumulated amortization	76,220	82,083
Compensated absences	<u>140,141</u>	<u>140,788</u>
TOTAL LIABILITIES	<u>10,807,832</u>	<u>12,294,906</u>
NET ASSETS:		
Invested in capital assets, net of related debt	6,170,017	5,760,486
Restricted for:		
Debt Service	261,549	328,503
Capital Projects	814,870	655,573
Unrestricted	<u>3,084,052</u>	<u>2,964,063</u>
TOTAL NET ASSETS	<u>\$ 10,330,488</u>	<u>\$ 9,708,625</u>

ONSTED COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

With Comparative Totals for the Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Program Revenues			Totals	
	Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	Governmental Activities
			2008	2007	
GOVERNMENTAL ACTIVITIES:					
Instruction	\$ 8,592,487	\$ 15,341	\$ 258,636	\$ (8,318,510)	\$ (8,261,220)
Support services	4,427,739	24,487	54,559	(4,348,693)	(4,325,580)
Food services	641,160	419,942	245,776	24,558	(4,452)
Community services	61,110	60,596		(514)	(17,308)
Athletics	534,651	88,687	79,205	(366,759)	(355,849)
Interest on long term debt including amortization of discount, premium and bond issuance costs	391,629			(391,629)	(412,771)
Unallocated depreciation	554,845			(554,845)	(528,569)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 15,203,621	\$ 609,053	\$ 638,176	\$ (13,956,392)	\$ (13,905,749)
GENERAL REVENUES:					
Property taxes, levied for general purposes			1,925,175		1,842,120
Property taxes, levied for debt service			784,297		830,967
Investment earnings			54,784		89,783
State sources			11,185,214		11,461,655
Intermediate sources			386,797		288,804
Loss on disposal of asset					(8,150)
Other			241,988		53,042
TOTAL GENERAL REVENUES			\$ 14,578,255		\$ 14,558,221
CHANGE IN NET ASSETS					
Net assets, beginning of year			621,863		652,472
Net assets, end of year			\$ 10,330,488		\$ 9,708,625

ONSTED COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	Totals	
				2008	2007
ASSETS:					
Cash and cash equivalents	\$ 154,202	\$ 814,870	\$ 273,118	\$1,242,190	\$1,163,183
Investments	1,658,315		72,306	1,730,621	2,640,354
Accounts receivable	3,700		593	4,293	10,182
Taxes receivable	92			92	760
Due from other governmental units	2,087,166		5,108	2,092,274	2,013,425
Due from other funds			26,333	26,333	72,977
Interest receivable					1,069
Inventory			13,986	13,986	14,695
Prepaid expenditures	8,655			8,655	5,271
TOTAL ASSETS	\$3,912,130	\$814,870	\$ 391,444	\$5,118,444	\$5,921,916
LIABILITIES:					
Accounts payable and accrued Expenditures	\$ 174,748	\$	\$ 1,477	\$ 176,225	\$ 199,342
Accrued salaries and related items	1,056,991			1,056,991	1,011,159
Loan payable					950,000
Interest payable					29,978
Due to other funds	26,333			26,333	72,977
Unearned revenue	21,809		32,904	54,713	108,298
TOTAL LIABILITIES	1,279,881	-	34,381	1,314,262	2,371,754
FUND BALANCES:					
Reserved for:					
Taxes receivable	92			92	760
Inventory			13,986	13,986	14,695
School lunch program			74,155	74,155	38,347
Community services			6,579	6,579	4,990
School store			673	673	1,607
Debt service			261,549	261,549	328,503
Capital projects		814,870		814,870	655,573
Unreserved reported in:					
Special Revenue Funds			121	121	188
General Fund	<u>2,632,157</u>			<u>2,632,157</u>	<u>2,505,499</u>
TOTAL FUND BALANCES	<u>2,632,249</u>	814,870	357,063	3,804,182	3,550,162
TOTAL LIABILITIES AND FUND BALANCES	\$3,912,130	\$814,870	\$ 391,444	\$5,118,444	\$5,921,916

ONSTED COMMUNITY SCHOOLS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
TOTAL GOVERNMENTAL FUND BALANCES	\$ 3,804,182	\$ 3,550,162
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital asset is	23,739,440	23,260,927
The accumulated depreciation is	<u>(8,312,753)</u>	<u>(7,757,908)</u>
	15,426,687	15,503,019
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Special education revenue from the Lenawee Intermediate School District	39,293	42,009
Delinquent personal property taxes	9,182	
Accrued interest receivable on defeased bonds	477,111	508,918
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(9,180,450)	(9,660,450)
Unearned premium on bonds net of amortization	(76,220)	(82,083)
Unearned bond issuance costs	93,936	100,646
Compensated absences	(200,964)	(187,737)
Accrued interest is not included as a liability in governmental funds. It is recorded when paid.	<u>(62,269)</u>	<u>(65,859)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 10,330,488</u>	<u>\$ 9,708,625</u>

ONSTED COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2008

With Comparative Totals for the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals</u>	
				<u>Governmental Funds</u>	<u>2008</u>
					<u>2007</u>
REVENUES:					
Local sources:					
Property taxes	\$ 1,916,857	\$ 6,489	\$ 783,433	\$ 2,700,290	\$ 2,673,087
Investment earnings	71,351	6,489	8,751	86,591	121,591
Sales, admissions and fees	39,828		569,225	609,053	620,037
Other	47,848	187,323	86,022	321,193	229,610
TOTAL LOCAL SOURCES	2,075,884	193,812	1,447,431	3,717,127	3,644,325
State sources	11,322,549		28,021	11,350,570	11,692,143
Federal sources	175,860		217,755	393,615	417,175
Intermediate sources	389,513			389,513	269,185
TOTAL REVENUES	13,963,806	193,812	1,693,207	15,850,825	16,022,828
EXPENDITURES:					
Current:					
Instruction	8,584,618			8,584,618	8,795,416
Support services	4,358,421			4,358,421	4,327,196
Food service activities			640,231	640,231	649,523
Community service activities			61,110	61,110	82,658
Bookstore activities			10,868	10,868	6,301
Athletic activities			536,554	536,554	509,798
Other	46,240			46,240	45,480
Capital outlay	478,513			478,513	109,683
Debt Service:					
Interest			394,372	394,372	415,278
Other			4,194	4,194	865
TOTAL EXPENDITURES	12,943,039	524,753	1,647,329	15,115,121	14,942,198
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,020,767	(330,941)	45,878	735,704	1,080,630
OTHER FINANCING SOURCES (USES):					
Prior year expense	(1,684)			(1,684)	
Sale of school property					7,849
Proceeds from bond issuance					200,000
Redemption of principal	(20,000)		(460,000)	(480,000)	(430,000)
Transfers in	510,238		382,855	893,093	836,822
Transfers out	(893,093)			(893,093)	(836,822)
TOTAL OTHER FINANCING SOURCES (USES)	(894,777)	490,238	(77,145)	(481,684)	(222,151)
CHANGE IN FUND BALANCES	125,990	159,297	(31,267)	254,020	858,479
FUND BALANCES:					
Beginning of year	2,506,259	655,573	388,330	3,550,162	2,691,683
End of year	\$ 2,632,249	\$ 814,870	\$ 357,063	\$ 3,804,182	\$ 3,550,162

ONSTED COMMUNITY SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CHANGE IN FUND BALANCES TOTAL GOVERNMENTAL FUNDS	\$ 254,020	\$ 858,479
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These costs are allocated over their estimated useful lives as depreciation on the Statement of Activities:		
Depreciation expense	(554,845)	(528,569)
Capital outlay	478,513	109,683
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		
Loss on disposal of capital asset	(8,150)	
Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in the governmental funds until it is paid.		
Accrued interest payable beginning of year	65,859	69,213
Accrued interest payable end of year	(62,269)	(65,859)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment on long-term debt and related items.	447,346	197,345
Revenues and expenditures of prior periods are recognized in the governmental funds, but must be eliminated on the Statement of Activities.		
Revenues related to prior periods		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds.		
Special education revenue from the Lenawee Intermediate School District – end of year	39,293	42,009
Special education revenue from the Lenawee Intermediate School District – beginning of year	(42,009)	(22,390)
Amount due for personal property taxes-end of year	9,182	
Compensated absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Accrued compensated absences – beginning of the year	187,737	188,448
Accrued compensated absences – end of year	(200,964)	(187,737)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 621,863</u>	<u>\$ 652,472</u>

ONSTED COMMUNITY SCHOOLS
STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008 and 2007

	<u>Agency Fund</u>	
	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and investments	\$ 81,419	\$ 65,359
TOTAL ASSETS	\$ 81,419	\$ 65,359
LIABILITIES:		
Due to student groups	\$ 81,419	\$ 65,359
TOTAL LIABILITIES	\$ 81,419	\$ 65,359

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Onsted Community Schools (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Onsted Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net assets as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income, and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the receipt of monies from the General Fund to purchase assets or to complete construction of major capital projects.

Other Non-major Funds

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service, athletic, community services, and bookstore activities in the Special Revenue Funds.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

ONSTED COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting.

This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation (Continued)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost. State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District has adopted a deposit and investment policy in accordance with GASB Statement No. 40.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund Non-homestead	18.00
Debt Service Funds – Homestead and Non-homestead	1.87

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Fund Balances

Fund balances on the Governmental Fund Balance Sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriate for expenditure or is legally segregated for a specific future use. The reserve for Taxes receivable represents the income from property taxes recognized, but not yet received at the fiscal year ended June 30, 2008. The reserve for Inventory is the portion of fund balance represented by inventory not

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

available for appropriation and expenditure at June 30, 2008. The reserve for the School Store and Community Service represents the portion of fund balance segregated for the specific use of the School Store Fund and the Community Service Fund, respectively, in future years. The reserve for the School Lunch Program represents the portion of fund balance that is legally segregated for expenditure within the School Lunch Fund. The reserve for Debt Service and reserve for Capital Projects are legally segregated for expenditure within the Debt Service Fund and Capital Projects Funds, respectively.

6. Fund Balances

Fund balances on the Governmental Fund Balance Sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Taxes receivable represents the income from property taxes recognized, but not yet received at the fiscal year ended June 30, 2008. The reserve for Inventory is the portion of fund balance represented by inventory not available for appropriation and expenditure at June 30, 2008. The reserve for the School Store and Community Service represents the portion of fund balance segregated for the specific use of the School Store Fund and the Community Service Fund, respectively, in future years. The reserve for the School Lunch Program represents the portion of fund balance that is legally segregated for expenditure within the School Lunch Fund. The reserve for Debt Service and reserve for Capital Projects are legally segregated for expenditure within the Debt Service Fund and Capital Projects Funds, respectively.

6. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.
7. There were no functions exceeding budget on the General Fund and Capital Projects Fund Budgetary Comparison Schedule. Total expenditures did not exceed the amount appropriated in any fund.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$1,448,153 of the District's bank balance of \$1,588,132 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,448,153
--------------------------------	--------------

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

The District's investments are deposits in the Michigan Liquid Asset Fund (MILAF) and MILAF time deposits in the amount of \$1,730,620. MILAF is a local government investment pool. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a credit risk policy. The MILAF investment is rated AAAm by Standard & Poor's Ratings Services.

Interest Rate Risk: The risk that changes in the interest rates will adversely affect the fair value of an investment. The District does not have an interest rate risk policy. The weighted average maturity of the MILAF portfolio at September 30, 2007 is 56 days. The weighted average maturity of the MILAF time deposits is 52 days.

NOTE 4. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Assets not being depreciated – land	\$ 154,772	\$ -	\$ -	\$ 154,772
Other capital assets:				
Land improvements	133,900	406,048		539,948
Buildings and additions	21,077,107			21,077,107
Equipment	518,963	10,965		529,928
Vehicles other than buses	40,899			40,899
Buses	1,335,286	61,500		1,396,786
Depreciable capital assets	23,106,155	478,513		23,584,668
Less: Accumulated depreciation	7,757,908	554,845		8,312,753
Net depreciable capital assets	15,348,247	(76,332)		15,271,915
Net capital assets	<u>\$ 15,503,019</u>	<u>\$ (76,332)</u>	<u>\$ -</u>	<u>\$ 15,426,687</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4. CAPITAL ASSETS (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years

Depreciation for the fiscal year ended June 30, 2008 and 2007 amounted to \$554,845 and \$528,569 respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5. LONG-TERM DEBT

The School District has issued a general obligation bond issue, dated August 1, 1997, for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, refurnishing, and re-equipping existing school buildings, to include acquiring and installing educational technology improvements, and developing and improving the site. The bond issue for \$11,575,000 has an interest rate ranging from 5.0% to 5.25%. A portion of the bonds are callable, those with maturities on or before 2008 and \$300,000 of those maturing in 2009. The remaining bonds maturing 2009 through 2022, totaling \$8,445,000 were refunded as described below. These bonds are held by the escrow agent, The Bank of New York Trust Company, N.A., and are not an obligation of the District.

<u>Year Ended June 30</u>	<u>Interest Rate</u>	<u>Principal Due May 1</u>	<u>Interest Due November 1</u>	<u>Interest Due May 1</u>	<u>Total</u>
2009	5.00%	\$ 300,000	\$ 7,500	\$ 7,500	\$ 315,000
		\$ 300,000	\$ 7,500	\$ 7,500	\$ 315,000

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT (Continued)

The School District has authorized refunding bonds, dated December 22, 2004, for the purpose of refunding a portion of a prior bond issue of the School District. The bonds were issued for \$8,940,000 at an interest rate ranging from 2.5% to 5.0%. The net present value of the savings is \$369,664 or 4.38% of refunded maturities.

A schedule of the 2004 bond issue is as follows:

Year Ended <u>June 30</u>	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2009	3.00%	\$ 185,000	\$ 179,308	\$ 179,308	\$ 543,616
2010	3.50%	500,000	176,533	176,533	853,066
2011	3.50%	520,000	167,783	167,783	855,566
2012	3.50%	540,000	158,683	158,683	857,366
2013	5.00%	560,000	149,233	149,233	858,466
2014	5.00%	590,000	135,233	135,233	860,466
2015	4.00%	620,000	120,483	120,483	860,966
2016	4.00%	645,000	108,083	108,083	861,166
2017	4.10%	670,000	95,183	95,183	860,366
2018	4.15%	700,000	81,448	81,448	862,896
2019	4.20%	730,000	66,923	66,923	863,846
2020	4.25%	760,000	51,593	51,593	863,186
2021	4.35%	790,000	35,443	35,443	860,886
2022	4.40%	830,000	18,260	18,260	866,520
		\$ 8,640,000	\$ 1,544,189	\$ 1,544,189	\$ 11,728,378

The School District has issued a general obligation bond issue, dated June 28, 2008, for the purpose of constructing and equipping a running track and developing and improving the site. The bond issue for \$200,000 has an interest rate of 4.35%

A schedule of the 2008 bonds is as follows:

Year Ended <u>June 30</u>	Interest Rate	Principal Due May 1	Interest Due November 1	Interest Due May 1	Total
2009	4.35%	\$ 20,000	\$ 3,915	\$ 3,915	\$ 27,830
2010	4.35%	20,000	3,480	3,480	26,960
2011	4.35%	20,000	3,045	3,045	26,090
2012	4.35%	20,000	2,610	2,610	25,220
2013	4.35%	20,000	2,175	2,175	24,350
2014	4.35%	20,000	1,740	1,740	23,480
2015	4.35%	20,000	1,305	1,305	22,610
2016	4.35%	20,000	870	870	21,740
2017	4.35%	20,000	435	435	20,870
		\$ 180,000	\$ 19,575	\$ 19,575	\$ 219,150

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT (Continued)

The Durant Bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid Payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. Due to economic conditions in the State of Michigan, payments of State Aid were eliminated and those payments due in years 2003 through 2006 are scheduled to be paid in year 2011. The 1998 limited obligation bond issue of \$102,377 has an interest rate of 4.76% interest.

A schedule of the Durant bonds is as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 5,697	\$ 1,492	\$ 7,189
2010	5,969	1,220	7,189
2011	6,253	936	7,189
2012	35,669	12,634	48,303
2013	<u>6,862</u>	<u>327</u>	<u>7,189</u>
	<u>\$ 60,450</u>	<u>\$ 16,609</u>	<u>\$ 77,059</u>

Employees can accumulate compensated absences by not using the number of sick days allotted each year. The maximum number of allowable accumulated sick days varies for employees depending on the capacity in which the District employs him/her. The vested liability for compensated absences is based on a percentage of an employee's daily rate of pay multiplied by the number of days accumulated by employees who have been employed by the District for ten or more years. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2008.

	1997		2007				
	General Obligation Bonds	2004 Refunding Bonds	General Obligation Bonds	Durant Bonds	Compensated Absences		Total
Balance July 1, 2007	\$ 695,000	\$ 8,705,000	\$ 200,000	\$ 60,450	\$ 187,737		\$ 9,848,187
Additions Deletions	(395,000)	(65,000)	(20,000)			13,227	13,227
							(480,000)
Balance June 30, 2008	500,000	8,640,000	180,000	60,450	200,964		9,381,414
Less:							
Current portion	300,000	185,000	20,000	5,697	60,823		571,520
Total due after one year	\$ -	\$ 8,455,000	\$ 160,000	\$ 54,753	\$ 140,141		\$ 8,809,894

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 5. LONG-TERM DEBT (Continued)

Debt Service requirements of governmental activities at June 30, 2008 were as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2009	\$ 510,697	\$ 382,938	\$ 893,635
2010	525,969	361,246	887,215
2011	546,253	342,592	888,845
2012	595,669	335,220	930,889
2013	586,862	303,143	890,005
2014 – 2018	3,305,000	1,089,560	4,394,560
2019 – 2022	3,110,000	344,438	3,454,438
	<u>\$ 9,180,450</u>	<u>\$ 3,159,137</u>	<u>\$ 12,339,587</u>

NOTE 6. INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances at June 30, 2008 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

<u>Fund</u>	<u>Due From</u>	<u>Fund</u>	<u>Due to</u>
Nonmajor	\$ 26,333	General	\$ 26,333
Totals	<u>\$ 26,333</u>		<u>\$ 26,333</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Capital projects	\$ 510,238	General	\$ 893,093
Nonmajor	<u>382,855</u>		<u> </u>
Totals	<u>\$ 893,093</u>		<u>\$ 893,093</u>

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental, and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 16.34% of payroll through September 30, 2007, and 17.72% effective October 1, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to the MPSERS for the years ended June 30, 2008, 2007, and 2006 were \$1,337,783, \$1,190,076, and \$1,323,450, , respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits Under the MPSERS Act, all retirees have the option of continuing health dental, and vision coverage.

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan, for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2008. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The likelihood of additional District liability is minimal.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE 9. SHORT-TERM DEBT - STATE AID NOTES

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District. The District was obligated by the State School aid anticipation note for the amount of \$950,000 with an interest rate of 3.68% and maturity date of August 2007. The interest incurred for this note was \$34,801. \$29,978 was expensed in the prior year and \$4,823 was recognized as expense for the year ended June 30, 2008.

The District did not refinance its State School aid anticipation note in the 2008-09 fiscal year.

Short-term debt activity for the fiscal year ended June 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation Note	\$ 950,000	\$ _____	\$ 950,000	\$ _____

ONSTED COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10. OPERATING LEASES

The District is a lessee in an operating lease with two lessors. The District leases property from David Shepard for \$125 per month. Either party may withdraw from the agreement 30 days prior to the expiration date.

The District is a lessee in noncancelable operating leases with the following lessor:

MT Business Technologies, Inc. for 11 copiers and 2 color printers for \$4,321.58 per month for 60 months beginning April 2006. The District is also obligated by a maintenance agreement for five years with a \$45 minimum monthly charge.

The rental costs for the years ended June 30, 2008 and 2007 were \$45,633 and \$58,920, respectively.

NOTE 11. NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Net Assets

The government-wide statement of net assets reports \$1,076,419 of restricted net assets at June 30, 2008, all of which is restricted by enabling legislation.

NOTE 12. CONTINGENCIES

There is pending litigation against the District at June 30, 2008. An estimate for loss is not measurable at this time. Management feels that the insurance coverage is adequate to cover any loss.

ROBERTSON
E A T O N
&
O W E N
P.C.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 22, 2008

ONSTED COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local sources	\$ 1,982,134	\$ 2,088,143	\$ 2,075,884	\$ (12,259)
State sources	11,404,707	11,322,929	11,322,549	(380)
Federal sources	180,641	183,531	175,860	(7,671)
Intermediate sources	<u>287,843</u>	<u>389,525</u>	<u>389,513</u>	<u>(12)</u>
TOTAL REVENUES	<u>13,855,325</u>	<u>13,984,128</u>	<u>13,963,806</u>	<u>(20,322)</u>
EXPENDITURES:				
Instruction:				
Basic programs	7,284,974	7,317,904	7,227,145	90,759
Added needs	<u>1,426,108</u>	<u>1,382,329</u>	<u>1,357,473</u>	<u>24,856</u>
TOTAL INSTRUCTION	<u>8,711,082</u>	<u>8,700,233</u>	<u>8,584,618</u>	<u>115,615</u>
Support services:				
Pupil	608,666	619,631	616,064	3,567
Instructional staff	356,046	357,366	339,860	17,506
General administration	460,229	427,505	411,126	16,379
School administration	805,872	817,061	813,068	3,993
Business	234,655	221,448	221,220	228
Operation and maintenance	1,378,842	1,258,740	1,257,991	749
Transportation	574,805	552,211	543,756	8,455
Central	<u>138,925</u>	<u>157,670</u>	<u>155,336</u>	<u>2,334</u>
TOTAL SUPPORT SERVICES	<u>4,558,640</u>	<u>4,411,632</u>	<u>4,358,421</u>	<u>53,211</u>
Community service activities	10,000			
TOTAL EXPENDITURES	<u>13,279,722</u>	<u>13,111,865</u>	<u>12,943,039</u>	<u>168,826</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>575,603</u>	<u>872,263</u>	<u>1,020,767</u>	<u>148,504</u>
OTHER FINANCING SOURCES (USES):				
Prior year expense		(1,685)	(1,684)	1
Transfers out	<u>(550,603)</u>	<u>(870,578)</u>	<u>(893,093)</u>	<u>(22,515)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(550,603)</u>	<u>(872,263)</u>	<u>(894,777)</u>	<u>(22,514)</u>
CHANGE IN FUND BALANCE	<u>25,000</u>	<u>-</u>	<u>(25,990)</u>	<u>125,990</u>
FUND BALANCES:				
Beginning of year			<u>2,506,259</u>	
End of year			<u>\$ 2,632,249</u>	

ONSTED COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive (Negative)</u>
REVENUES:				
Local sources	\$ 1,600	\$ 166,500	\$ 193,812	\$ 27,312
EXPENDITURES:				
Other	11,315	58,720	46,240	12,480
Capital outlay	62,800	478,513	478,513	
TOTAL EXPENDITURES	74,115	537,233	524,753	12,480
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(72,515)	(370,733)	(350,941)	39,792
OTHER FINANCING SOURCES (USES):				
Redemption of principal			(20,000)	(20,000)
Transfers in	483,053	510,238	510,238	
TOTAL OTHER FINANCING SOURCES (USES)	483,053	510,238	490,238	(20,000)
CHANGE IN FUND BALANCE	410,538	139,505	159,297	19,792
FUND BALANCES:				
Beginning of year			<u>655,573</u>	
End of year			<u>\$ 814,870</u>	

ROBERTSON
E A T O N
&
O W E N
P.C.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Onsted Community Schools taken as a whole. The accompanying information identified in the table of contents as other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 22, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Onsted Community Schools
Onsted, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Onsted Community Schools (District), as of and for the year ended June 30, 2008, which collectively comprise District's basic financial statements and have issued our report thereon dated August 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not

To the Board of Education
Onsted Community Schools
Onsted, Michigan

be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1, is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated August 22, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 22, 2008

ONSTED COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Finding 2008-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

Condition

Currently there is little segregation of conflicting duties of initiating transactions, and the recording of those transactions

Cause

The District has a limited number of personnel.

Effect

Segregation of duties would provide another measure of internal control to provide the ability of the District to determine, in a reasonable amount of time, whether all transactions initiated are recorded and reported timely and accurately.

Recommendation

The District should consider adding additional personnel in order to segregate duties.

Client Response

We are aware of this deficiency and are currently researching the use of consolidated business office services.